


2011 Annual Report




Working Together for a Sustainable Future

ONTARIO POWER AUTHORITY

March 31, 2012

The Honourable Chris Bentley
Minister of Energy
900 Bay Street, 4th Floor
Toronto, ON
M7A 2E1

Dear Minister:

I am pleased to submit the Ontario Power Authority's 2011 annual report. The report provides an overview of the OPA's activities and accomplishments during the fiscal year that ended December 31, 2011, and includes the audited financial statements.

Respectfully submitted,

James D. Hinds
Chair

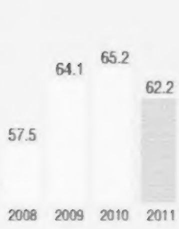
WORKING TOGETHER

Conserve. Plan. Transform. Collaborate.

The Ontario Power Authority (OPA) plays a unique role in Ontario's electricity sector – coordinating province-wide conservation efforts, planning the electricity system for the long term and contracting for clean electricity resources. We work closely with our industry partners and a broad range of stakeholders across the province to carry out these activities.

Together, we are transforming Ontario's electricity system – helping to reduce energy use, maintain reliability and establish a clean, modern and cost-effective power grid – for a sustainable future.

Operating Costs (in millions)



Cumulative MW under OPA Management

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MESSAGE

FROM THE CHAIR AND THE CEO

Working with our industry partners and stakeholders across Ontario's energy sector, the OPA is responsible for ensuring that the province's electricity system remains reliable, sustainable and cost-effective.

Colin Andersen, Chief Executive Officer — James D. Hinds, Chair

In recent years, we've emerged from uncertain times to a point where system reliability has been restored. Electricity demand is expected to remain stable for the next few years, with conservation programs offsetting anticipated increases in demand from population growth and economic recovery.

The success we've experienced is largely due to the OPA's conservation, supply procurement and long-term planning initiatives under the direction of the Ontario government. Now we are able to focus on making our province's electricity system cleaner, smarter and more sustainable.

By the end of 2013, the OPA will be managing contracts amounting to roughly two-thirds of Ontario's electricity system or 26,500 megawatts (MW). This represents a nearly $51 billion investment, more than 90 percent of which is from the private sector.

We achieved a number of significant accomplishments in 2011:

- Together with Ontario's local distribution companies, we launched a suite of province-wide conservation and demand management programs to run from 2011 to 2014 and we helped build the capability of delivery agents and customers to participate in conservation programs.
- We engaged in collaborative regional planning with community partners in areas across Ontario.
- We substantially completed an update of the Integrated Power System Plan.
- And we continued to build on the success of the FIT and microFIT renewable energy programs by processing nearly 30,000 applications, awarding contracts and supporting a planned two-year review of the programs.

But more hard work remains to reach our goals. Much depends on how our economy evolves, how quickly consumers fully adopt a "culture of conservation" and our ability to respond to changing circumstances. Substantive initiatives are under way in every part of the electricity sector – that will realize economic benefits and involve increasingly engaged consumers in a smarter, more reliable, cost-effective and sustainable electricity system.

In 2012, we will continue to engage Ontarians collaboratively in conservation through awareness initiatives and innovative solutions. We will deliver conservation programs to meet or exceed conservation targets and we will develop a new and innovative approach to conservation for the next generation of programs post 2014.

Our planning initiatives include a 20-year, comprehensive plan to achieve the goals of the Long-Term Energy Plan, and serve as an underpinning to regional planning and ongoing regulatory proceedings.

One of our most immediate and new challenges will be integrating renewable resources during periods of potential surplus energy. This will require ongoing planning to ensure adequate backup to variable generation, managing surplus, and operating within transmission availability. Ensuring a reliable supply also means that the OPA must have flexible plans to allow for required refurbishment of nuclear plants without disrupting the flow of electricity.

Our second big task in 2012 is implementing the improvements resulting from the two-year FIT Program review. The first program built upon the best principles of feed-in tariff programs around the world. The revamped program will reflect current circumstances as we work to ensure a sustainable program that balances the interests of participants with the needs of ratepayers.

The OPA has made great progress since 2005 in restoring reliability to our electricity system. And we will continue to find new ways to be innovative and efficient in the generation, transmission and use of electricity. Over the longer term, we need to look at integrating distributed generation, particularly into urban development, and to develop holistic approaches to how we align planning for our infrastructure needs for water, land, housing and transportation with electricity planning.

Our sights are set on making the electricity sector cleaner, greener and smarter, on long-term power system planning at the provincial and regional levels, and on tools to encourage efficient consumption, such as conservation, time-of-use rates and smart meters.

In all we do, we are mindful of the government's financial restraint efforts. We will continue efforts to find further ways to reduce expenses and the cost impacts of our operations on all electricity consumers, while managing an increasingly broad and more complex mandate. In 2011, we reduced our total operating costs by four percent from 2010.

There were 235 regular full-time positions at the OPA in 2011, and the annual operating budget was $62.2 million. This was funded by the ratepayers of Ontario through a fee of $0.551 per megawatt-hour of electricity consumed.

The OPA's efforts are dedicated overall to making Ontario a world-leading clean energy jurisdiction that supports the economy of tomorrow. The steps we take will ensure our electricity system meets the changing needs of families and businesses while enhancing the province's economic prosperity.

James D. Hinds, Chair

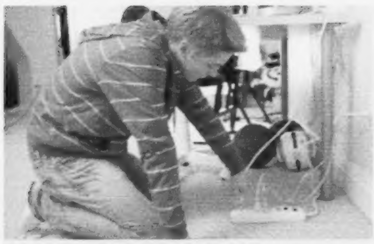
Colin Andersen,
Chief Executive Officer

Our sights are set on making the electricity sector **cleaner, greener** and **smarter,** on long-term power system planning at the provincial and regional levels, and on tools to encourage efficient consumption, such as conservation, time-of-use rates and smart meters.

CONSERVE

Creating a culture of conservation

By working with local distribution companies and others in the sector throughout the year, we're helping Ontario stay on track to meet and exceed its peak demand reduction target of 4,550 MW and its energy savings target of 13 terawatt-hours (TWh) by 2015.



Ontario has some of the most ambitious conservation targets in North America. The long-term target is a 7,100 MW reduction in peak demand and 28 TWh in energy savings by 2030 – the equivalent of removing 2.4 million homes from the grid.

The commercial sector is expected to contribute 50 percent to these targets, the residential sector 30 percent and the industrial sector 20 percent.

New programs to help everyone conserve

Conservation will always be our first priority because it's less costly than building new generation, it helps consumers manage their electricity costs and it reduces greenhouse gas emissions. We're working to help Ontario achieve ambitious conservation targets, and the province is making good progress. Efforts to date have reduced peak demand by more than 1,700 MW since 2005 – equivalent to removing half a million homes from the electricity grid and saving over $3.8 billion, at a cost of $1.7 billion.

The OPA manages more than 400 conservation contracts with payments and incentives of up to $500 million per year for 2011-2014 programs, resulting in savings for Ontario's ratepayers of more than $1 billion in avoided costs.

Together with the local electricity distribution companies, we launched saveONenergy this year, a suite of conservation and demand management programs to help consumers, businesses, and industrial and institutional facilities across the province reduce their energy use and become more energy efficient.

We also worked closely with First Nation and Métis communities to customize our conservation programs for their unique needs. These programs will be launched in early 2012.

And we helped businesses and large industrial customers across the province to conserve energy through our Industrial Accelerator and Demand Response initiatives. Launched in mid 2010, the Industrial Accelerator helps large industrial electricity users to become more energy efficient and reduce their operating costs. The first project to come into service in 2011 – at Xstrata Nickel Sudbury Smelter – is delivering 3,900 megawatt-hours of savings per year and significant savings in annual operating costs.

Supporting conservation through training, technology, marketing and innovation

We worked hard to build the capability of our delivery agents and customers to participate in conservation programs. We supported local distribution companies and other program delivery partners through new information technology systems and by assisting them with training, marketing and engineering, as well as with program evaluation, measurement and verification.

We continued to build capability in the conservation and energy-efficiency services industry and to support innovation in emerging technologies and conservation programs through our Conservation Fund. At the end of 2011, 55 projects were under active management. And we supported energy-management activities, such as the employment of energy managers and the development of energy management plans, through our distribution and transmission-connected industrial energy-efficiency programs.

We demonstrated marketing, education and conservation awareness leadership through a range of initiatives, including our successful saveONenergy PLEDGE campaign, which saw nearly 110,000 Ontarians take the pledge to conserve energy. Participants were able to donate AIR MILES® reward points earned from taking the pledge to charitable organizations such as World Wildlife Fund-Canada, Kids Help Phone and Special Olympics. And we've built a consumer database of about 118,000 Ontarians who now regularly receive information about conservation from us.

Building a culture of conservation for the future

We also continued to play a leadership role in promoting conservation through forward-looking activities in the areas of innovation, codes and standards and integrated energy systems. This year, we undertook a number of activities to support the advancement of energy-efficiency codes and standards and other policy.

We received the Energy Efficiency Program of the Year – Energy Supplier award at the 2011 Platts Global Energy Awards in New York City in November. The judges praised our saveONenergy public education initiative for creating a culture of conservation in Canada's most populous province.

We worked with local governments and other stakeholders to promote conservation-oriented local policy action and integrated community energy solutions that allow for synergies between local supply and demand for energy services. We worked with municipalities, gas and water utilities on harmonized approaches to conservation to make it easier for consumers to take part in conservation programs.

Conservation Fund supports zone-controlled residential HVAC systems

With support from the OPA Conservation Fund, McMaster University is helping to prove that zone-controlled residential heating, ventilating and air-conditioning (HVAC) systems can save energy and money.

Zone-controlled technology enables the temperature of each area to be controlled by a separate thermostat. Improving the temperature control of unoccupied areas within the home allows residents to conserve energy and reduce energy costs.

The McMaster research team examined the impact of reducing air conditioning loads during high peak times in July and August. Some homes were equipped with the zoned systems, while the others had conventional (non-zoned) heating and cooling systems. **On average, homes with zone-controlled systems experienced peak demand reductions 15 percent greater than homes with non-zoned systems.**

From 2006 to 2011:

More than **336,000** energy-guzzling appliances such as old fridges and freezers have been collected.

Nearly **264,000** Ontarians took the saveONenergy pledge.

More than **190,000** participants enrolled in the **peaksaver**® program to lower demand on the system on hot summer days.

Nearly **170,000** small businesses benefitted from the Direct Install Lighting initiative.

PLAN

Planning for a sustainable future

To realize the government's Long-Term Energy Plan goals, we develop energy plans for Ontario.

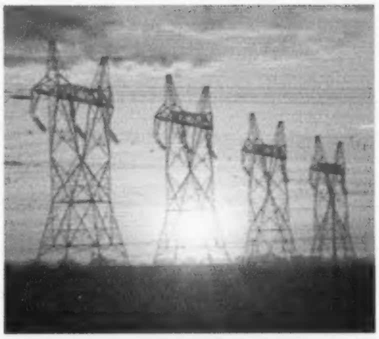


Photo courtesy of Hydro One.

Planning is integral to addressing regional electricity issues and to ensuring that all options are considered for maintaining a reliable, cost-effective and sustainable system.

Planning for Ontario's Future

Energy planning incorporates government policy and directives, as well as changing sector conditions and input from stakeholders. Updated plans form the basis for advice and discussions on electricity policy development and infrastructure investments, including regulatory proceedings. We also assess and contribute to the evaluation of proposals for new generation, transmission and storage projects.

In 2011, we substantially completed an update of the Integrated Power System Plan. The plan has not yet been filed with the Ontario Energy Board for regulatory review.

Supporting a wide range of energy sector initiatives

We evaluated system supply options and requirements and transmission priorities as new and updated data became available. These assessments provided sector decision-makers with information regarding the impact of supply options on cost, system reliability, transmission requirements, emissions, siting requirements and other important considerations.

We supported the FIT Program for renewable energy procurement through testing to determine transmission and distribution availability, the economic feasibility of connecting to the grid and operability assessments.

And we worked with Ontario Power Generation, Bruce Power and the Ministry of Energy as part of the Nuclear Refurbishment Coordination Working Group to develop a nuclear refurbishment schedule. This process facilitates plan development and implementation, monitoring and adjustment as needed to reflect changing conditions and provide value to Ontarians.

Other initiatives involved working with the Independent Electricity System Operator to develop tools to help plan and manage the system, both in real-time and in the long term as conditions such as supply resources change, and working with Ontario Power Generation to optimize the future operation of Pickering Nuclear Station. We also provided support to local distribution companies and other sector agencies for their regulatory filings.

Developing a supply plan for the north

We are working with First Nation communities, industrial customers, local distribution companies, Hydro One Remote Communities Inc., the Independent Electricity System Operator and transmitters in northwestern Ontario to develop a supply plan for the north-of-Dryden area.

As well as addressing the future load growth in the north, the plan will include the future connection of 20 remote First Nation communities north of Pickle Lake and Red Lake to Ontario's transmission system to economically displace the use of diesel fuel that is currently used to provide electricity supply to these communities.

In addition to the connection plan for these 20 communities, the OPA will also work with five other remote First Nation communities that are not economic to connect at this time. We will assist them in making plans to economically reduce their diesel consumption, while meeting their demand growth through the effective use of conservation, renewable energy and smart grid technology.

In the assessment of options for connecting remote communities, First Nations shared local knowledge of their community power systems, traditional lands and community interests, and community members helped the OPA to assess the diesel generation systems in their communities.

Advancing transmission projects to maintain reliability and meet renewable energy targets

The OPA collaborated with industry partners such as the Ontario Energy Board and Hydro One to improve reliability and add more renewable connections to the system in the north, the Greater Toronto Area and the area west of London. We have worked to obtain the most value from the existing transmission system by incorporating about 5,000 MW of renewable generation into the system without the need for major incremental transmission investment.

Developing solutions for regions of Ontario facing supply constraints

We led and facilitated meetings with stakeholders and performed studies to develop solutions in the areas in Ontario identified as having potential supply constraints. We collaborated with local distribution companies, transmitters and the Independent Electricity System Operator to develop regional plans to ensure adequate and reliable electricity supply over the near, medium and long term. This process was ongoing in 2011 for Central-Downtown Toronto, the Kitchener-Waterloo-Cambridge-Guelph area, Windsor-Essex, Ottawa, and York Region.

Substantive initiatives are under way in every part of the electricity sector – ambitious **conservation** targets, cleaner **generation** efforts, significant **transmission** investment and long-term **planning**.

Photo courtesy of the Independent Electricity System Operator.

TRANSFORM

Transforming to a cleaner, more reliable system

Our portfolio of electricity contracts represents more than $35 billion of new investment in Ontario's electricity sector since 2005.

Managing supply contracts representing billions of dollars of investment

By the end of the year, we were managing more than 21,000 MW of electricity supply, including over 10,300 MW of renewable energy and almost 7,700 MW of clean energy. This represents almost two-thirds of Ontario's electricity system.

Table 1a: Electricity supply capacity under contract from 2005 to December 2011

Capacity in service (MW)*	Capacity under construction (MW)	Capacity in planning and permitting (MW)	Total capacity under contract (MW)
12,886	2,786	5,367	21,039

*MW = megawatts

Table 1b: Electricity supply contracts, capacity and status details

Technology or contract type	Number of contracts	Total capacity under contract (MW)	Total capacity in service (MW)
Renewable - hydroelectric	116	2,349 .1	1,688.1
Renewable - wind, solar, bioenergy	11,960	8,030.4	2,437.1
Natural gas: simple/combined cycle	13	7,239.3	6,846.3
Natural gas: combined heat and power	9	419.9	414.0
Nuclear	1	3,000.0	1,500
Total	**12,099**	**21,039**	**12,886**

*MW = megawatts

Managing and settling contracts

In 2011, we managed an increasing number of contracts resulting from our electricity supply procurements, including financial settlement of these contracts on time and accurately. We accomplished this through enhanced and standardized contract management processes.

As of December 31, 2011, the OPA managed nearly 2,000 FIT contracts representing about 4,620 MW, close to 9,900 microFIT contracts representing nearly 86 MW and over 230 other non-FIT-related contracts of about 16,333 MW.

In October 2010, the government announced that work would not be proceeding with the planned gas-fired generation facility in Oakville. We continue to negotiate the close-out of this contract with the contract counterparty. In the fall of 2011, the government committed to the relocation of the gas-fired generation facility under construction in southern Mississauga. Work at the Mississauga site has stopped and we are actively evaluating alternative sites for this facility.

Procuring renewable and clean energy supply for the province

We continued to procure electricity supply from renewable and clean resources in response to directives received from the Minister of Energy. Our procurement activity included a mix of standard offer contracting, requests for competitive proposals, and bilateral negotiations.

Both the FIT and microFIT programs continued to experience tremendous uptake. Under the FIT Program, about 2,000 MW of mid- and large-scale projects were announced in 2011. This represents enough electricity each year to power more than 1.1 million homes. And more than 7,400 microFIT projects (of 10 kW or less), mostly for rooftop solar photovoltaic projects, were connected or ready to connect to the grid.

Table 2:
2011 Activity in FIT and microFIT programs

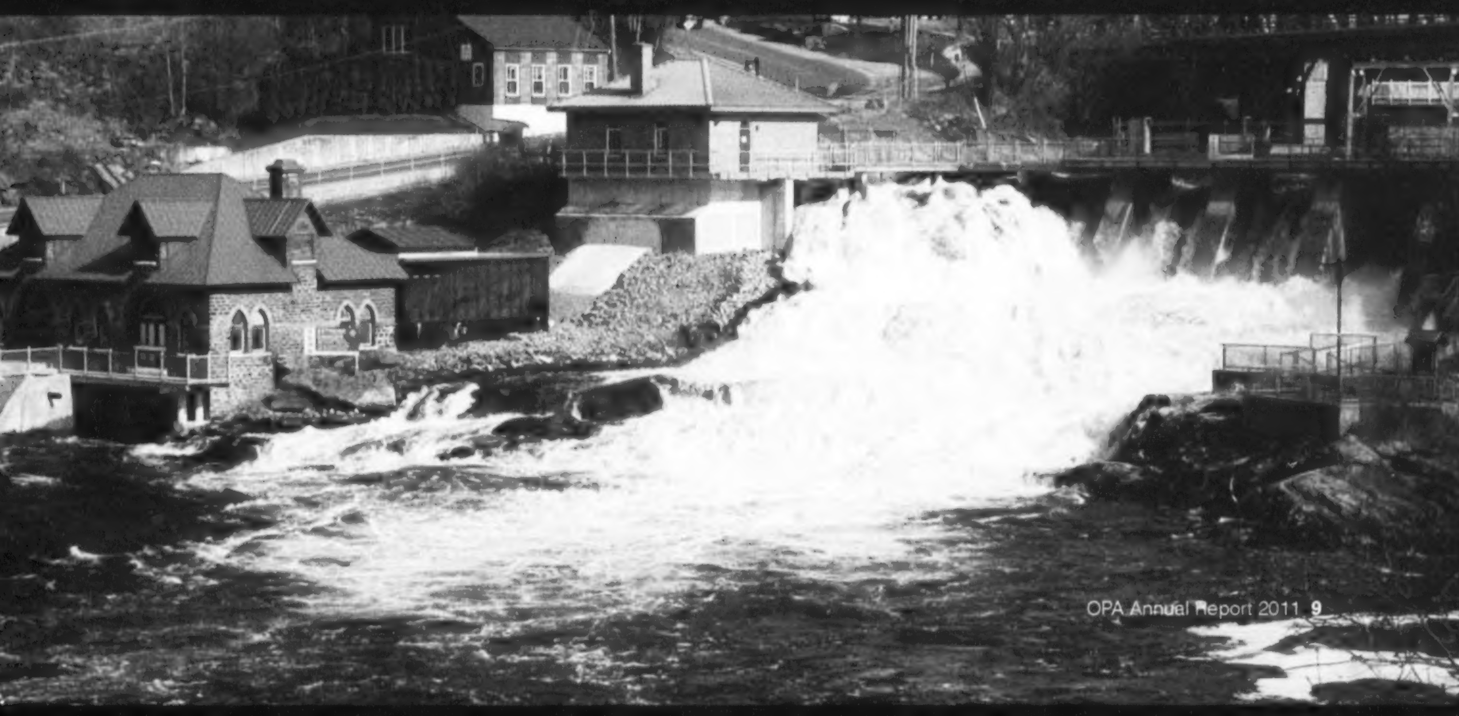
FIT		microFIT	
Applications	**MW**	**Applications**	**MW**
6,051	4,921.8	23,522	219.2
Contracts	**MW**	**Contracts**	**MW**
767	2,066.8	7,447	66.8

Green energy helps communities across Ontario

The new Town of Ajax Operations Centre will serve as the base for many essential town services, including snow clearing, parks maintenance, facilities and fleet maintenance. Officially opened in December 2011, the LEED-certified building has improved energy efficiency, water conservation and other environmentally friendly features. The nearly 500 solar panels have a total capacity of 100 kW, which will generate enough electricity to power about 10 homes per year. In addition to the traditional roof-mounted panels, an important architectural feature of the centre is a sail made up of solar panels in front of the building.

Fort Frances High School in the Rainy River District of northwestern Ontario installed a system consisting of more than 500 rooftop solar panels that has a total capacity of 100 kW. The system will serve as a valuable teaching tool and help drive the future of the community's environmental well-being by reducing carbon dioxide emissions by 118 metric tons annually.

We continued to enter into new contracts with existing hydroelectric facilities under the Hydroelectric Contract Initiative. Since November 2009, **over 1,000 MW** of capacity at **66 facilities** have been contracted. In 2011, we contracted for an additional **20 MW**.



TRANSFORM

We worked with the Ministry of Energy to conduct consultations and a review of the FIT and microFIT programs. The review builds on the success of the program to ensure its sustainability with new rules and prices to be announced in 2012 that will balance the interests of ratepayers with the need to continue to invest in Ontario's clean energy economy.

In 2011, the OPA began to negotiate a series of power purchase agreements with the Korean Consortium for the development of 2,500 MW of wind and solar projects in Ontario. Contracts were executed for approximately 870 MW of wind power and 200 MW of solar power. The projects are expected to come into commercial operation in phases between 2014 and 2016.

We designed and implemented procurements for other clean energy projects such as natural-gas fired generation, including combined-cycle, simple-cycle and combined heat and power (CHP). And we procured electricity supply from other sources, such as energy recovery projects, energy-from-waste projects, and converted coal-fired facilities (to natural gas and biomass).

As well, the OPA began negotiations with six non-hydroelectric non-utility generators (NUGs) in 2011. This involved developing a principles paper, performing stakeholder engagement, and building models to determine the value of the NUGs to the province's electricity system. There are 31 of these facilities in Ontario, generating approximately 1,400 MW of electricity from natural gas, biomass and energy from waste facilities, and contracts for 600 MW are expected to expire before 2015.

We continued to negotiate with Ontario Power Generation for a number of resources that contribute to the reliability, adequacy and operability of Ontario's electricity system, including in specific regions, such as northwestern Ontario. And we continued to negotiate with Ontario Power Generation to ensure value for ratepayers regarding the Lennox Generating Station.

Helping communities across Ontario develop renewable energy projects

We worked to enhance the operation and management of funding programs for renewable energy projects, including the Aboriginal Energy Partnerships Program and the Community Energy Partnerships Program.

Aboriginal Energy Partnerships Program (since April 2010)

Grants	Funding
51	$5.5 million

Community Energy Partnerships Program (since May 2010)

Grants	Funding
179	$8.1 million

In November 2010, we were directed to allocate up to $500,000 per year of the Community Energy Partnerships Program budget to education outreach programs. Following a call for funding in 2011, $483,004 was awarded to six applicants representing 14 partner organizations.

The OPA's Community Energy Partnerships Program helps Boys and Girls Club of London

The Boys and Girls Club of London, a family community centre that runs educational, recreational and social programming for over 15,000 members, received financial support from the OPA's Community Energy Partnerships Program.

The club has now installed over 500 rooftop solar panels, representing 120 kW of electricity supply. The project will generate reliable revenue while producing clean energy year-round. It will also demonstrate leadership and provide educational opportunities to the 8,000 children who visit the club each year.

COLLABORATE

Working together for a sustainable future

Throughout 2011, we engaged with stakeholders, Aboriginal communities, ratepayers, government and business partners to shape and support the activities that help us to fulfill our mandate.

Supporting Aboriginal participation in Ontario's electricity system

We continued to support the participation of Aboriginal communities in renewable energy and conservation programs in 2011 through relationship building, and targeted initiatives, such as the Aboriginal Energy Partnerships Program, which provides funding directly to First Nations and Métis communities for renewable energy projects and community energy plans. We also consulted with more than 90 First Nations and Métis communities across the province on the development of the province's second integrated power system plan through regional and community meetings.

We substantially completed a report to be shared with the Aboriginal communities that participated in the consultation process and are working with the Ministry of Energy to finalize the report.

We also conducted analysis and worked to develop a business case with the Northwest Ontario First Nation Transmission Planning Committee to determine the feasibility of connecting the remote communities north of Pickle Lake and Red Lake in northwestern Ontario to the provincial electricity grid. The committee includes members representing the remote communities. This work identified 20 remote First Nation communities as economically feasible to connect and we are now working with the committee to develop connection options.

Gitchi Project in Northern Ontario

Pic Mobert First Nation is developing the Gitchi Hydroelectric Project along the White River in Northern Ontario. Gitchi Animki means "Big Thunder" and consists of two facilities: Gitchi Animki Bezhig (Big Thunder One) which is 8.9 MW in size and Gitchi Animki Niizh (Big Thunder Two) which is 10 MW. The community has been awarded $500,000 for each project under the OPA's Aboriginal Renewable Energy Fund. In addition to generating clean, renewable energy, the Gitchi Animki Bezhig site will replace an existing Ministry of Natural Resources' regulating dam that manages lake levels on White Lake, which is home to the Pic Mobert First Nation, White Lake Provincial Park and many cottages.

Each facility has a separate power purchase contract through the OPA's FIT Program. These 40-year contracts will be a revenue source for Pic Mobert First Nation, once the projects are constructed and connected to the grid.

"Our progress and ultimate success in developing this project has and will bring new hope and optimism to our People", says Chief Johanna Desmoulin. "We couldn't have made it this far without the vision and support of numerous successive Chiefs and Councils and funding support from Ontario and Canada."

COLLABORATE

We engaged stakeholders in all of our key initiatives, including planning for procurements for renewable and clean energy, the FIT program reviews, conservation initiatives and the integrated power system plan. We held a total of **80 events** involving **8,366 participants** in 2011.

Habitat for Humanity – building energy-efficient homes

The OPA has supported Habitat for Humanity since 2007 with financial and in-kind assistance to build affordable, energy-efficient homes. Since that time, we've helped Habitat's Toronto affiliate build Habitat's first official ENERGY STAR® residential building in Canada and supported Habitat's first Green House® certified homes at 1500 Weston Road, equipped with rooftop solar panels.

In 2011, 46 OPA volunteers took part in Habitat for Humanity builds, including the Toronto Women Build in the spring, which also contributed substantially to the $200,000 fundraising goal.

OPA donations were used to purchase energy saving products and appliances that can make a home 20 to 30 percent more efficient than a standard home.

Engaging with our stakeholders

We continued to focus on strengthening community and stakeholder relations in 2011 by proactively and consistently delivering high-quality stakeholder outreach and engagement activities. We are enhancing two-way communications with stakeholders through improvements to our website and we've added a conservation advisory council that will complement our other stakeholder efforts.

2011 Canada's Greenest Employers

We were selected as one of Canada's Greenest Employers in 2011, as Smart Commute Toronto-Central's 2011 Employer of the Year, and as one of Greater Toronto's Top 90 Employers for a second year in a row.

Greater Toronto's Top Employers 2012

Social and environmental responsibility

Through the efforts of our employees, we've continued to improve on our internal environmental performance in areas such as energy use, recycling and waste disposal, resource procurement, transportation, and staff engagement – and we've received local and national recognition for our efforts. We continued our participation in the World Wildlife Fund of Canada's Living Planet@Work program.

Also with the support and participation of our employees, we remained committed to supporting a number of charitable organizations, including Habitat for Humanity, United Way and the Daily Bread Food Bank.

MANAGEMENT
DISCUSSION & ANALYSIS

The following is a discussion of the operating results of the Ontario Power Authority (OPA) for the year ended December 31, 2011. Further details can be found in the detailed financial statements and notes.

2011 financial highlights:

- **In 2011, the OPA reduced total operating costs by 4 percent from 2010.**
- **Worked to maintain cost containment initiatives while managing a significant increase in conservation and generation program-related activities**
- **Growth in electricity generated under OPA contracts has led to increased generation charges year-over-year.**
- **New province-wide conservation programs were launched to help meet provincial conservation targets.**
- **The OPA worked to diligently and effectively implement legislated programs within short timelines. Consistent with the OPA's own internal audit findings, the Auditor General did not find any significant issues with the administration of the FIT program.**
- **Target to reduce regular OPA full-time equivalent staffing levels by five percent by 2013.**

- The OPA incurs expenses to achieve its mandate. These expenses include wages, professional expenses, leases and other general operating expenses that are incurred to manage and support long-term system planning, electricity generation and provincial conservation programs.
- The OPA incurs charges related to conservation programs to meet Ontario's conservation targets for electricity savings, as well as charges related to generation contracts to provide an adequate, reliable and sustainable electricity supply to the province. These charges are reflected in the global adjustment mechanism (GAM) and are discussed later in this report.

Financial performance

Revenue

Reduced revenue commensurate with lower operating expenses.

The OPA has three different sources of revenue that are used to fund its expenses:

a) *Fees:* an Ontario Energy Board (OEB)-approved rate charged to Ontario electricity consumers on a consumption basis. Revenue resulting from this consumer fee is established to recover the OPA's operating budget. The fee and its components are reviewed and approved by the OEB through a regulatory proceeding. In 2011, total revenue decreased slightly to $76.3 million from $76.8 million in 2010.

b) *Registration fees:* an administrative charge on OPA procurements. 2011 registration fees are $2.9 million lower than in 2010.

c) *Other revenue:* interest and miscellaneous income.

OPA Revenue (in millions)	2011	2010	Change
Fee revenue	$ 62.1	$ 62.4	– $ 0.3
Recovery of other financial accounts	$ 14.2	$ 14.4	– $ 0.2
Registration fees	$ 0.3	$ 3.2	– $ 2.9
Other	$ 1.7	$ 0.5	$ 1.2
Total	**$ 78.3**	**$ 80.5**	**– $ 2.2**

Operating costs:

Continue to lower costs through flexibility in staffing, reduced reliance on external professional services and ongoing efficiencies.

Expense items are captured in the following categories: compensation and benefits, professional fees, general operating costs, and other costs. Significant elements within other costs include conservation and technology fund disbursements, as well as amortization of capital assets. In 2011, total operating expenses of $76.4 million (including $14.2 million in amortization of other financial accounts) declined by four percent from 2010. This decrease was due to a reduction in professional fees and costs related to the Technology Development Fund. In 2011, the OPA complied with procurement, travel, meal and hospitality expense directives issued by the provincial government, the *Public Sector Compensation Restraint to Protect Services Act, 2010,* and all other government policies.

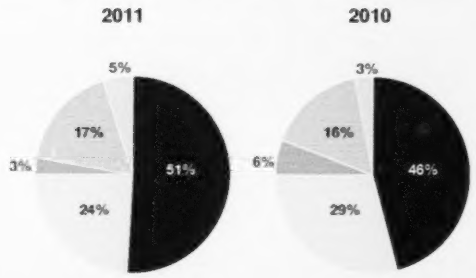
- *Compensation and Benefits:* total expenses of $31.6 million increased $1.4 million from 2010. Higher expenses reflect an increase in temporary staffing in 2011 to manage unexpected FIT-related demand and other short term work.
- *Professional Fees:* total 2011 expenses of $14.9 million declined by $4.1 million or 21.6 percent from 2010. This decrease reflects a greater reliance on internal staffing resources in 2011.
- *General Operating Costs:* total expenses of $10.6 million are $0.4 million higher than 2010 expenses. This is mainly due to additional expenses to support the OPA's conservation program management system. These higher expenses were partially offset by lower travel and marketing expenses.
- *Other Costs:* other costs totaling $5.1 million in 2011 are $0.7 million lower than in 2010. Higher depreciation expenses were offset by lower Conservation Fund expenses. The fund's disbursements were lower in the current year due to more time spent to realign the fund's investment priorities and long-term plans for conservation. In 2011, the Technology Fund was merged with the Conservation Fund. Expenses under the new, combined Conservation Fund were treated as charges for projects approved in 2011, resulting in a decrease in fund expenses compared to 2010.

In February 2011, the Minister issued a new supply-mix directive that further increased the renewable energy target to 19,700 MW, but stipulated that it be achieved seven years earlier than the date set in the 2006 directive. In order to achieve these aggressive new targets, both the Ministry and the OPA expeditiously implemented the actions the Minister requested in his ministerial directives. (Auditor General Report, December 2011, p. 97)

OPA Operating Costs (in millions)	2011	% of Total $	2010	% of Total $	Change
Compensation and benefits	$31.6	51%	$30.2	46%	$1.4
Professional fees	14.9	24%	19.0	29%	– 4.1
Conservation and technology funds	1.9	3%	3.6	6%	– 1.7
General operating costs	10.5	17%	10.2	16%	0.3
Amortization of capital assets	3.3	5%	2.2	3%	1.1
Sub-total Operating Expenses	**$62.2**	**100%**	**$65.2**	**100%**	**– $3.0**
Amortization of other financial accounts	14.3		14.4		– 0.1
Total Operating Costs	**$76.5**		**$79.6**		**– $3.1**

Figure 1:

2011 and 2010 Operating Expenses by Expense Category



- Compensation and benefits
- Professional fees
- Conservation and technology funds
- General operating costs
- Amortization of capital assets

Program Spending:

Program spending, also known as "charges", consists of payments to suppliers and participants in the OPA's conservation and generation initiatives, and is reflected in GAM.

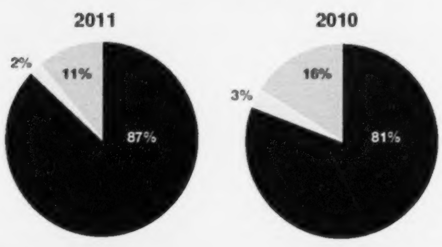
In the face of a significant increase in program activities and corresponding program spending, the OPA was able to decrease its operating costs for the year. Generation program spending is higher primarily for two reasons: an increase in number of contracts achieving commercial operation, and the "top up" in contract payments which increase as the value of Hourly Ontario Energy Price (HOEP) decreases, as it did in 2011. Conservation-related program spending provided financial assistance toward meeting or exceeding the provincial conservation targets.

2011 versus 2010 Operating Expenses and Program Costs

OPA Expenses and Program Costs (in millions)	2011	2010	Change
Operating expenses	$ 62.2	$ 65.2	$ – 3.0
Conservation programs	317.8	321.6	– 3.8
Generation programs	2,561.2	1,678.4	882.8

Figure 2:

2011 and 2010 Operating Expenses and Program Costs and Electricity Resource Charges (in millions)



- Operating expenses
- Conservation
- Generation

Electricity supply contracts include nuclear, clean and renewable generation facilities. Generation charges account for new resources coming into operation and for differences between HOEP and the rates paid to contracted generators for electricity in Ontario. In 2011, total electricity generation charges increased 53 percent over 2010 (Figure 2). The lower HOEP contributed the majority of the increase in generation charges as the value of HOEP declined (from $37.49 to $30.89) in 2011.

The slight decrease in conservation program spending reflects the transition from pre-2011 conservation programs to the new 2011 to 2014 conservation program suite. The OPA will continue to develop, implement and manage a robust portfolio of conservation programs while integrating its evaluation, measurement and verification system to track overall progress in meeting Ontario's conservation targets.

Global Adjustment Mechanism

GAM accounts for differences between HOEP and the rates paid to regulated and contracted generators for electricity in Ontario. It also includes amounts paid for conservation and demand management programs, as well as green energy initiatives. As a result, elements of GAM may be positive or negative, depending on the fluctuation of prices in the wholesale electricity market. GAM applies to business customers who pay the spot market price and customers who have signed a contract with a licensed electricity retailer. For customers who subscribe to the Regulated Price Plan (RPP), it is factored into the rate set by the OEB.

The global adjustment reflects the difference between the market price and:

- regulated rates paid to Ontario Power Generation's (OPG's) nuclear and hydroelectric baseload generating stations
- payments made to suppliers that have been awarded contracts through the OPA, such as new gas-fired facilities, renewable facilities (e.g., FIT and microFIT program projects) and demand response programs
- contracted rates administered by the Ontario Electricity Financial Corporation (OEFC) paid to existing generators.

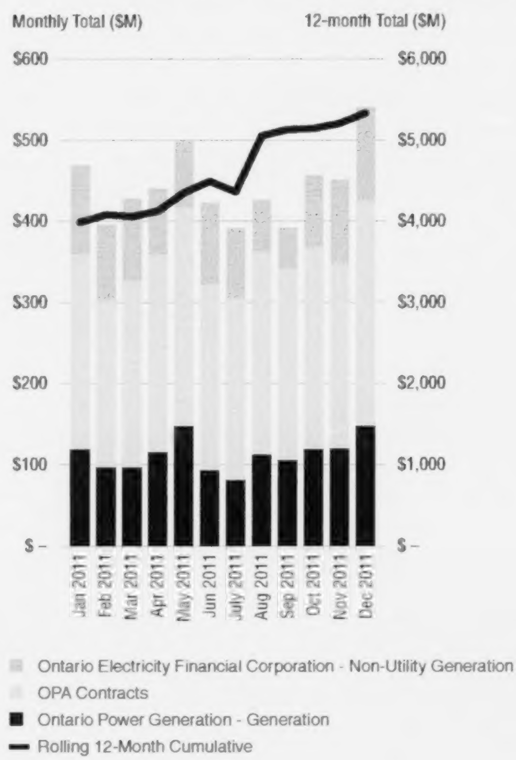
Accounting for the Global Adjustment Mechanism

The OPA has a legislated responsibility to record transactions that flow through GAM. To meet this requirement, the OPA records the cash flows related to procurement contracts held, managed or under its responsibility. The account is settled monthly; however, the settlement process for OPA contracts requires an estimate of the balance owing to suppliers at each month end. This estimate is filed with the IESO at the end of each month and received by the OPA in the following month to settle electricity payments to contractors. Any variances between the actual amounts paid and estimated amounts payable are included in the following month's settlement. At December 31, 2011, a balance of $326 million existed in relation to amounts receivable from the IESO to fund electricity payments.

Figure 3 highlights OPA cash flows from GAM for the 12-month period ending December 31, 2011. The rolling 12-month trend line reflects the average monthly global adjustment cash flows for the prior 12-month period. This is compared to the global adjustment cash flows for each month. The global adjustment increases and decreases in response to changes in spot market prices. When the spot market price of electricity is lower, the global adjustment is higher to cover the additional payments for energy contracts and other regulated generation. GAM also increases as new projects come into service and contract payments take effect. The trend line in Figure 3 is lower at the beginning of 2011 and increases toward the end of the year due to higher global adjustment cash flows from August to December 2011.

Figure 3:

OPA Cash Flows from the Global Adjustment Mechanism



Executive Compensation Plan

Program Objectives

The OPA executive compensation program is an integrated program for all executive staff. It is designed to attract, retain and motivate the calibre of executives required to support the achievement of the OPA's statutory mandate, corporate vision and business objectives. Accordingly, the compensation philosophy and program have the following objectives:

- to focus executives on meeting the OPA's business objectives
- to attract qualified and talented executive staff needed to carry out the OPA's mandate
- to retain valued executive staff
- to provide flexibility to differentiate total compensation for specific executives based on individual results and demonstrated competencies
- to establish compensation levels that are responsible and defensible to stakeholders.

The philosophy underlying these objectives is that the total compensation for executive management should be sufficient, but not more than required, to attract the skills and competencies needed to carry out the OPA's mandate.

Program Governance

The Board of Directors establishes the objectives for the compensation program. It delegates to the Human Resources Committee of the Board of Directors the responsibility to review thoroughly the compensation objectives, policies and programs and make recommendations concerning them to the full Board of Directors for approval. In carrying out their mandate, members of the Board of Directors have access to management's perspectives as well as those of expert consultants in the compensation field. The program is reviewed at least annually in terms of business needs, program objectives and design, industry compensation trends, internal compensation relativities and external market relativities.

In addition to the formal governance and oversight structure in place for compensation matters, the OPA annually discloses compensation levels for staff earning above $100,000 as part of its public sector salary disclosure under the ***Public Sector Salary Disclosure Act (Ontario)***. For the OPA, a further level of public review and assurance is provided through a statutorily required annual fee review by the OEB. Compensation matters, including management compensation and market relativities, are addressed during this review. A broad range of stakeholder groups, assisted by their legal and professional advisors, are represented in these public proceedings. The OPA is also responsive to various requests for information by the Ministry of Energy in relation to compensation matters. These include enquiries with respect to the Agency Review Panel's 2007 review and report on senior management compensation for agencies in Ontario's electricity sector.

Executive Compensation Statement

Compensation decisions may at times be affected by market factors, such as the recruitment of an executive with specialized skills and competencies or possessing unique talents in the industry. These decisions are also influenced by social, economic, legal and political factors, such as prevailing financial and employment conditions, government fiscal considerations, legislation governing compensation and societal perceptions of public sector compensation.

For the fifth consecutive year, the OPA's Board of Directors approved a freeze on the subsequent year's (i.e., 2008, 2009, 2010, 2011 and 2012) salary structure for executives. In freezing the executive's salary structure for 2012, the OPA's Board took into consideration many of the above social, economic and legal factors, including compliance with Bill 16, *Public Sector Compensation Restraint to Protect Public Services Act.*

The following table sets out the annual compensation for the year ended December 31, 2011, for the listed executive officers. The total cash compensation information provided below matches the information published under the *Public Sector Salary Disclosure Act (Ontario)* for the indicated period.

Summary of Executive Compensation[1]

Name, Position Title	Year	Salary Paid	Taxable Benefits	Amounts Reportable Under Public Sector Salary Disclosure Act[2]
Colin Andersen,	2011	$573,027	$871	$573,898
Chief Executive Officer	2010	$573,027	$807	$573,834
Kimberly Marshall,	2011	$254,952	$799	$255,751
Vice-President, Business Strategies and Solutions (CFO)	2010	$249,249	$807	$250,056
Amir Shalaby,	2011	$449,939	$878	$450,817
Vice-President, Power System Planning	2010	$450,968	$886	$451,854
Andrew Pride[3],	2011	$316,970	$886	$317,856
Vice-President, Conservation	2010	$ 99,038[4]	$133	$ 99,171
JoAnne Butler,	2011	$371,924	$878	$372,802
Vice-President, Electricity Resources	2010	$372,609	$886	$373,495

[1] Executives are listed in the following order:
Chief executive officer, chief financial officer, then in alphabetical order by first name.

[2] Total T4 income, including taxable benefits.

[3] 2011 is the first full year in which Mr. Andrew Pride's compensation is included in the executive compensation plan section of the OPA's annual report and is the first year in which he has received a full year's compensation, since his effective hire date in late 2010.

[4] Hired, effective November 1, 2010.

KPMG

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Power Authority

We have audited the accompanying financial statements of Ontario Power Authority, which comprise the statement of financial position as at December 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Power Authority as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

February 15, 2012
Toronto, Canada

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents	$ 229,827	$ 97,263
Accounts receivable (note 3)	416,102	289,123
Prepaid expenses	300	86
	646,229	**386,472**
Capital assets (note 4)	10,378	11,236
Other financial assets (note 5)	–	15,689
Total Assets	**$ 656,607**	**$ 413,397**

LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 321,995	$ 296,254
Operating loan (note 13)	256,368	–
Contract deposits (note 7)	52,128	67,571
Other liabilities	83	68
	630,574	**363,893**
Deferred rent inducement, net (note 8)	547	691
Other financial liabilities (note 5)	25,788	49,966
Net assets:		
Internally Restricted Conservation Funds (note 9)	10,667	12,581
Invested in capital assets	10,378	11,236
Accumulated operating deficit	(21,347)	(24,970)
	(302)	**(1,153)**
Commitments (note 8)		
Contingencies and guarantees (note 14)		
Total Liabilities and Net Assets	**$ 656,607**	**$ 413,397**

See accompanying notes to financial statements

On behalf of the Board of Directors:

James D. Hinds
Chair

Colin Andersen
Chief Executive Officer

STATEMENT OF OPERATIONS

(in thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Fees	$ 62,121	$ 62,407
Recovery of other financial accounts (note 5)	14,267	14,423
Registration fees	254	3,249
Interest	1,657	451
Other	17	18
	78,316	**80,548**
Expenses:		
Compensation and benefits	31,610	30,153
Professional fees	14,903	18,981
Amortization of other financial accounts (note 5)	14,267	14,423
General operating (note 10)	10,595	10,240
Conservation Funds (note 9)	1,914	3,590
Amortization of capital assets	3,155	2,229
	76,444	**79,616**
Excess of revenue over expenses before interest expense	1,872	932
Interest expense	1,021	453
Excess of revenue over expenses	**$ 851**	**$ 479**

See accompanying notes to financial statements

STATEMENT OF CHANGES IN NET ASSETS

ONTARIO POWER AUTHORITY

(in thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

	Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operating Deficit	Total Net Assets 2011	Total Net Assets 2010
Balance, beginning of year	$ 11,236	$ 12,581	$ (24,970)	$ (1,153)	$ (1,632)
Excess (deficiency) of revenue over expenses	(3,155)	–	4,006	851	479
Conservation Funds expenses	–	(1,914)	1,914	–	–
Purchase of capital assets (net)	2,297	–	(2,297)	–	–
Balance, end of year	**$ 10,378**	**$ 10,667**	**$ (21,347)**	**$ (302)**	**$ (1,153)**

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS

ONTARIO POWER AUTHORITY

(in thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash Flows from (used in) Operating Activities:		
Excess of revenue over expenses	$ 851	$ 479
Items not involving cash:		
Amortization of capital assets	3,155	2,229
Amortization of deferred rent inducement	(144)	(145)
Amortization of other financial accounts	14,267	14,423
Change in non-cash operating items (note 12)	(116,895)	30,591
	(98,766)	47,577
Cash Flows from (used in) Financing Activities:		
Received for other liabilities	15	68
Increase in operating loan	256,368	–
Increase in other financial assets	1,422	(436)
Increase (decrease) in other financial liabilities	(24,178)	35,877
	233,627	35,509
Cash Flows used in Investing Activities:		
Purchase of capital assets	(2,297)	(5,755)
Increase in cash and cash equivalents	132,564	77,331
Cash and cash equivalents, beginning of year	97,263	19,932
Cash and cash equivalents, end of year	**$ 229,827**	**$ 97,263**

Supplemental cash flows information:	2011	2010
Interest paid	$ 1,238	$ 885
Interest received	2,003	1,104

See accompanying notes to financial statements

1. Nature of operations:

The Electricity Restructuring Act, 2004 (the Act), established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with the Act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term;
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario;
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources;
- to engage in activities that facilitate load management;
- to engage in activities that promote electricity conservation and the efficient use of electricity;
- to assist the OEB by facilitating stability in rates for certain types of customers; and
- to collect and provide to the public and the OEB information relating to medium and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA's creditworthiness is attested by the following:

- the ability of the OPA to meet its obligations is provided for in legislation; and
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

2. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition:

Amounts received in the current year that relate to services and programs to be determined in subsequent years are not recognized as revenue and are deferred.

Fees earned by the OPA are based upon OEB-approved rates for electrical energy withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

2. Significant accounting policies (continued):

(d) Capital assets:
Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service life
Furniture and equipment	10 years
Computer hardware	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease plus extension option

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and exceeds its fair value.

(e) Employee pension benefits:
The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA does not have sufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Measurement uncertainty:
Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(g) Future Accounting Standards
Effective January 1, 2012, the OPA will be required to adopt the new accounting standards issued by the Public Sector Accounting Board for government not-for-profit organizations. Government not-for-profit organizations have the option of applying the Public Sector Accounting Handbook supplemented by the Section 4200 series. The OPA will adopt the new standards, effective for periods beginning on January 1, 2012. All changes due to the new standards will be applied retrospectively.

(in thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

3. Accounts receivable:

	2011	2010
Receivable from IESO (note 13)	$ 326,049	$ 187,789
Conservation charges	87,077	98,059
Renewable energy fund charges	2,156	1,126
Other	820	1,232
HST/GST receivable	–	917
	$ 416,102	**$ 289,123**

4. Capital assets:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Furniture and equipment	$ 3,360	$ 1,543	$ 1,817	$ 2,059
Computer hardware	4,697	4,076	621	1,330
Computer software	6,966	2,325	4,641	4,086
Audio-visual equipment	229	127	102	125
Telephone system	382	284	98	143
Leasehold improvements	5,075	1,976	3,099	3,493
	$ 20,709	**$ 10,331**	**$ 10,378**	**$ 11,236**

5. Other financial assets and liabilities:

Other financial assets and liabilities arise as a result of the Electricity Act, 1998 and the regulations there under and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2011	2010
Other financial assets	$ –	$ 15,689
Other financial liabilities	(25,788)	(49,966)

(in thousands of dollars)

5. Other financial assets and liabilities (continued):

RPP variance accounts

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. When the hourly Ontario energy price (HOEP) is greater than the RPP, the OPA pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2011	2010
OPG rebate contribution	$(602,750)	$(599,107)
Total RPP variance before interest	562,467	534,311
Interest earned	14,495	14,830
	$ (25,788)	$ (49,966)

Retailer contract settlement deferral accounts

Legislative provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. The OPA and retailers settling any differences between the HOEP and the contract price for each contract meet these provisions. When HOEP is greater than the contract price, the OPA receives payments from the retailers and records a financial liability. When HOEP is less than the contract price, the OPA pays the retailer and records a financial asset. The OPA tracks these variances in the retailer contract settlement deferral accounts.

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured are held in a separate deferral account for settlement concurrent with the retailer settlement deferral accounts.

As the contracts to which the retailer settlement accounts relate have now largely expired, it is appropriate to begin disposing of the balances in these accounts. To mitigate ratepayer impact, the OPA will recover the accumulated balance of total retailer contract settlements over a three-year period from 2009 - 2011. The OPA began amortizing the accumulated balance in 2009 on a straight-line basis over the three-year recovery period. The amortization expense for 2011 is $14,267 (2010 - $14,423).

	2011	2010
2005 retailer contract settlement account	$ –	$ (13,627)
2006 retailer contract settlement account	–	18,004
2007 retailer contract settlement account	–	12,401
2008 retailer contract settlement account	–	45
2009 retailer contract settlement account	–	191
2010 retailer contract settlement account	–	359
2011 retailer contract settlement account	–	–
Retailer contract discount settlement account	–	(1,684)
	$ –	$ 15,689

(in thousands of dollars)

5. Other financial assets and liabilities (continued):

Government procurement deferral account

The OPA reimburses the government for costs incurred for electricity procurement and records the costs as a financial asset. Any subsequent balances will be included in future revenue requirement submissions. The OPA began amortizing the government procurement costs in 2009 on a straight-line basis, with amortization for 2011 totalling $nil (2010 - $99).

Global adjustment account

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: Demand Response 2 (DR2), Demand Response 3 (DR3), non-utility generation (NUG), regulated nuclear generation balancing amount (nuclear) and regulated hydro electric generation balancing amount (hydro). These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, Feed-In Tariff and hydroelectric contract initiatives) which the OPA settles on a monthly basis with the IESO.

The DR3, NUG, nuclear, hydro, and OPA contract balances are offset in the global adjustment account eliminating the need for a flow of funds between the IESO and the OPA. The OPA records the effect of the transactions to meet its legislated responsibility.

The OPA generation contracts are estimated each month and settled on the actual amount owing in the following month. This gives rise to timing differences. The settlement dates can cross calendar months, creating a monthly balance in the account. Differences created from timing or settlement dates are re-classified into accounts receivable at month end. The net impact of global adjustment transactions creates a zero balance in the account at every month end.

	2011	2010
DR2	$ 22,760	$ 12,448
DR3	36,279	17,536
NUG	1,082,964	959,670
Nuclear	1,262,051	882,214
Hydro	84,692	7,146
OPA Contracts	2,820,966	1,969,859
Global adjustment balancing amount	(5,309,712)	(3,848,873)
	$ –	$ –

(in thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

6. Accounts payable and accrued liabilities:

	2011	2010
Accrued contract settlements	$ (12,942)	$ (189,002)
HST payable	(128)	–
Other accrued liabilities	(308,925)	(107,252)
	$ (321,995)	**$ (296,254)**

7. Contract deposits:

The OPA receives performance security in the form of deposit amounts received from renewable energy supply, Feed-In Tariff (FIT) Program and demand response suppliers. For suppliers engaged in a contract which involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws their application from the Program; (b) the supplier obtains a contract with the OPA; or (c) the supplier's application is rejected by the OPA.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the supplier on request.

8. Deferred rent inducement and operating lease commitments:

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2011, the deferred rent inducement, net of amortization, was $547 (2010 - $691).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2011, the accrued liability was $250 (2010 - $321).

Lease commitments for premises are set to terminate by October 2015. Lease commitments include amounts for leased computer hardware. Computer hardware commitments terminate between 2012-2013. The minimum annual payments under the operating lease are approximated as follows:

Lease Commitments	
2012	$ 1,678
2013	1,652
2014	1,650
2015	1,294
	$ 6,274

(in thousands of dollars)

9. Internally restricted conservation funds:

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, 11 funds have been set up as depicted in the table below:

	Restricted Fund	Expensed 2011	Expensed Prior Years	Balance 2011
2005 Conservation Fund	$ 1,100	$ –	$ 837	$ 263
2006 Conservation Fund	1,500	–	1,575	(75)
2007 Conservation Fund	3,000	–	2,674	326
2008 Conservation Fund	3,000	277	2,575	148
2009 Conservation Fund	3,000	747	1,675	578
2010 Conservation Fund	5,000	44	131	4,825
2006 Technology Development Fund	1,000	–	487	513
2007 Technology Development Fund	1,000	(3)	650	353
2008 Technology Development Fund	1,500	156	1,537	(193)
2009 Technology Development Fund	1,500	139	1,114	247
2010 Technology Development Fund	4,500	554	264	3,682
	$ 26,100	**$ 1,914**	**$ 13,519**	**$ 10,667**

10. General operating costs:

	2011	2010
General program costs	$ 4,118	$ 4,799
Premises	3,616	3,447
Information technology	1,839	1,046
Office and administration	1,022	948
	$ 10,595	**$ 10,240**

11. Pension plan:

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2011, the OPA paid or accrued contributions totalling $1,937 (2010 - $1,916) during the year.

(in thousands of dollars)

12. Change in non-cash operating items:

	2011	2010
Increase in accounts receivable	$ (126,979)	$ (82,593)
Decrease (increase) in prepaid expenses	(214)	43
Increase in accounts payable and accrued liabilities	25,741	51,359
Increase (decrease) in contract deposits	(15,443)	31,782
	$ (116,895)	**$ 30,591**

13. Related party transactions:

The OPA considers the OEB, Hydro One, the IESO, OPG, Ontario Financing Authority (OFA), and the Ministry of Energy as related parties due to the relationship they maintain with the Government of Ontario. Transactions between these parties and the OPA were as follows:

Under the Ontario Energy Board Act, 1998, the OPA incurs registration and licence fees. Consistent with other registrants, in 2011 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB was $1,129 in 2011 (2010 - $1,147).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2011, the OPA procured $39,860 in conservation demand management (2010 - $31,359) from Hydro One and its wholly owned subsidiaries. Amounts receivable from Hydro One in 2011 were $742 (2010 - $742).

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2011 was $76,388 (2010 - $76,830). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP, and retailer contract settlement deferral accounts on behalf of various market participants (see note 5). At December 31, 2011, the OPA had a net receivable of $326,049 (2010 - $187,789). The OPA also incurred $844 in 2011 (2010 - $447) for IESO professional services.

The OPA has an agreement with OPG for professional services and planning support. In 2011, the OPA incurred $nil (2010 - $nil) for such services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and support the RPP variance account. The line of credit was renewed in 2010 for a three-year term from January 1, 2011 to December 31, 2013. On December 30, 2011, the OPA obtained a $256,368 operating loan from the OFA, which matures on January 31, 2012. The interest rate for this loan is 1.17 percent. In 2011, the OPA incurred $1,021 (2010 - $453) in interest expenses for the loan.

In the 2008 revenue requirement submission to the OEB, the OPA requested and received an OEB decision to carry the costs related to the government procurements in a deferral account to settle coincidentally with the retail contract settlement deferral accounts. The amount of $nil was incurred in 2011 (2010 - $nil).

14. Contingencies and guarantees:

Contingencies:

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2011 in the opinion of management, no such liabilities exist.

(a) In October 2009, the OPA signed a contract with TransCanada Energy Ltd. to design, build and operate over a 20-year term a 900 megawatt gas-fired electricity generating station in Oakville. It was decided in October 2010 not to proceed with this project. Negotiations related to this matter are ongoing. A reasonable estimate of any settlement amount cannot be determined at this time.

(b) Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs has been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2011, management is not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

(c) In April 2005, the OPA signed a contract with Greenfield South Power Corporation ("GSPC") to design, build and operate over a 20-year term a 280 megawatt gas-fired electricity generating station in Mississauga. It was decided in October 2011 to seek to relocate this facility. Negotiations related to this matter are ongoing. A reasonable estimate of the settlement amount cannot be determined at this time.

Guarantees:

The OPA is contingently liable under a loan guarantee provision in a contract with a maximum potential exposure of $8,600. The outstanding loan balance under this contract, which the OPA has guaranteed, is $20 as at December 31, 2011 and is not presently in default. The contract related to this guarantee expires in September 2012.

15. Fair value of financial assets and financial liabilities

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The carrying values of the operating loan approximate their fair values as the terms and conditions for similar types of loan arrangements are comparable to current market conditions for similar items.

The fair values of other financial assets and other financial liabilities are not provided because it would not provide additional useful information as they would be offset and/or would not be practical to determine.

16. Capital Disclosures:

Due to the OPA's primary objectives (note 1), the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year's revenue requirement submission. As at December 31, 2011, the Minister has not provided formal approval of the OPA's business plan or the OPA's proposed usage fee for 2012.

17. Financial risk management:

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk, liquidity risk and interest rate risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

(a) Credit risk:

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The OPA is exposed directly to credit risk related from accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2011 included no material items past due.

(b) Liquidity risk:

Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

(c) Interest rate risk:

The OPA's operating loan has a variable interest rate based on the Province of Ontario's cost of funds for borrowing, with a similar term as determined by the OFA plus a margin. As a result, the OPA is exposed to interest rate risk due to fluctuations in the Province of Ontario's cost of funds for borrowing with a similar term rate.

CORPORATE INFORMATION

Board of Directors

James D. Hinds, Chair
Retired from TD Securities Inc., where he was a managing director; Newcrest Capital Inc. and CIBC Wood Gundy Inc.

Charles Bayless, Director
Retired Provost, West Virginia University Institute of Technology. (Term expired on August 1, 2011)

Michael Costello, Director and Chair Audit Committee
Retired from BC Hydro and BC Transmission Corporation (President and CEO); former chair, Canadian Electricity Association; former chair, Energy Council of Canada; board member, InTransit BC, Vancouver Island Health Authority and BC Health Benefit Trust.

Richard P. Fitzgerald, Director
Retired chair, Diageo Canada Inc.

Adèle M. Hurley, Director
President, Hurley & Associates Inc. and director, Program on Water Issues, Munk School of Global Affairs, University of Toronto.

Ronald L. Jamieson, Director and Chair, Human Resources Committee
Retired from BMO Financial Group, where he was senior vice-president, Aboriginal Banking; director, Nuclear Waste Management Organization and Denendeh Investments Inc.; Chair, Canadian Council for Aboriginal Business.

Bruce Lourie, Director
President of Ivey Foundation, a director of Environmental Defence Canada and a director of the Consultative Group on Biological Diversity (San Francisco).

Lyn McLeod, Director and Vice Chair
Chair of the Ontario Health Quality Council and Ontario representative on the Health Council of Canada and director of Thunder Bay Institute of Technology. Founding chancellor of the University of Ontario Institute of Technology and past chair of the board of Confederation College in Thunder Bay.

Patrick J. Monahan, Director
Vice-president, academic and provost at York University. Former dean of Osgoode Hall Law School and founding chair of the Board of Governors of the Law Commission of Ontario.

Colin Andersen, Director
Chief Executive Officer, Ontario Power Authority

Corporate Officers

James Hinds
Chair

Colin Andersen
Chief Executive Officer

JoAnne Butler
Vice President, Electricity Resources

Ben Chin
Vice President, Corporate Communications (Resigned February 4, 2011)

Kristin Jenkins
Vice President, Corporate Communications (Effective June 22, 2011)

Michael Lyle
General Counsel and Vice President, Legal, Aboriginal and Regulatory Affairs

Kimberly Marshall
Vice President, Business Strategies and Solutions

Andrew Pride
Vice President, Conservation

Amir Shalaby
Vice President, Power System Planning

John Zych
Corporate Secretary

Corporate Information

For more information on the Board of Directors, including the Board Charter and Code of Conduct, Governance and Structure By-Law, and Board committees, please visit the OPA website, www.powerauthority.on.ca and select About Us; Management, Mandate and Organization; Board of Directors.

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